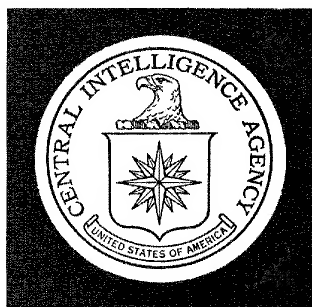


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DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Economic Situation in South Vietnam

~~Secret~~

November 1970
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
November 1970

INTELLIGENCE REPORT

The Economic Situation in South Vietnam

Summary

Initial response to the government's recent economic measures has been encouraging for the most part. Retail prices increased only moderately during the six weeks ending 9 November, and the price of dollars on the black market declined to the lowest level since late August. Orders for imports have been unusually high despite the higher costs involved. Wage demands by Vietnamese employees in the US sector, however, threaten to undermine the stabilization effort.

The probable high level of rice stocks in the delta, the large crop now being harvested, and other factors should result in a substantial increase in deliveries of rice to Saigon during coming months.

Charts on prices and money supply, import licensing, currency and gold prices, the government budget, and foreign exchange reserves follow the text.

Initial Response to Recent Economic Measures

1. Market reaction to the partial devaluation and other measures announced by the government on 3 October has been encouraging. Retail prices have increased only moderately, and black market dollar and gold prices have declined. After some initial administrative difficulties, orders for imports apparently have not been adversely affected by the large advance deposit requirements, higher

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interest rates, and the higher exchange rate for some imports. Some unanticipated problems, however, have arisen in connection with the reform measures, the most serious of which is the month-long strike for higher pay by about 10,000 Vietnamese employees of an American firm doing contract work for the US Government.

Commodity Price Movements

2. Since the reforms were announced six weeks ago, the USAID weekly retail price index for Saigon has increased 7%, with more than two-thirds of the increase occurring during the two weeks ending 9 November. The average retail price level for October was unchanged from the previous month at a level 28% above that of December 1969. The price increases that have occurred -- mainly for vegetables, charcoal, and firewood -- apparently have been caused by slowdowns in deliveries of these items as a result of rainy weather in the delta. Rice prices increased temporarily, but by the end of October had returned to previous levels. Meat prices rose somewhat during the two weeks ending 9 November for unknown reasons. The first wage payment to government employees at the new, higher rate occurred during the last week in October and may have put some upward pressure on prices.

3. Prices for imported goods -- the goods most directly affected by the reforms -- have been nearly stable. The monthly average price index for imported commodities rose only 3% in October and then declined 1% during the first ten days of November. While importers' costs have risen because of the higher exchange rate for some imports and increased taxes and interest rates, these additional costs will not have to be met fully by the importers until the goods being ordered under the new system actually arrive in Vietnam -- at least another two months hence. Meantime, arbitrary price increases by importers for goods already on hand have not materialized, evidently because of a slack in demand. At the present time, consumers apparently do not expect the GVN to limit the availability of foreign exchange or to devalue -- the two expectations which fed the speculative fires and caused sharp increases in the price of

imports following the imposition of the austerity taxes in October 1969. Indeed, the government already has announced that foreign exchange will be freely available during the remainder of 1970 for a broad range of imported items.

Imports

4. Licenses issued for imports financed from Vietnamese foreign exchange resources were unusually high during the first month following the reforms, totaling \$35.2 million, or the highest level since January. Moreover, a large proportion of this amount reportedly consisted of orders for luxury goods which now are considerably more costly because of the new exchange rate and higher import taxes. During the first two weeks in October, however, licenses issued under the US-financed Commercial Import Program (CIP) totaled less than \$1 million, compared with a biweekly average of more than \$8 million during January-September. Few of the goods eligible for CIP financing are affected either by the new exchange rate or the higher import taxes, but importers resisted the new advance deposit system which provides that substantial down payments -- up to 200% of foreign exchange costs of CIP goods -- must be made at the time of license application and remain on deposit until the goods are delivered. While down payments are required for both GVN-financed and CIP goods, the latter, most of which come from the United States, often take about nine months to arrive, while goods financed by GVN foreign exchange take only three. To encourage use of CIP funds, the government has announced that advance deposits on CIP goods now will be retained for a maximum of three months. Apparently as a result of this change, CIP licensing increased substantially during the remainder of October.

Currency Black Market

5. The advance deposit requirements for imports apparently also are having a dampening effect on the currency black market. The price of dollars and gold leaf declined steadily between 12 October and 9 November, with the price of dollars falling from 448 piasters to 405 piasters per dollar, the lowest level since late August. On 9 November

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the rate for MPC (scrip) was equal to the official rate of 275 piasters per dollar. There has been a decline in demand for dollars on the black market in part because of a liquidity squeeze on importers as a result of advance deposits. Importer demand for piasters to meet these deposits reportedly has even led in a few instances to repatriation of foreign-held funds. Although data on current bank deposits are not available, it also is possible that the higher interest rates now being offered by commercial banks have attracted piasters that otherwise might have been sent out of the country via the black market. Moreover, the decline in demand has more than offset the decline in the supply of dollars to the black market resulting from the new exchange rate for US personnel in Vietnam. During the two weeks following the establishment of the new exchange rate of 275 piasters per dollar, legal conversions of MPC and/or dollars into piasters amounted to \$3.25 million, or almost three times the biweekly average during the first eight months of 1970.

Rice Price Policy

6. In addition to the revisions of the advance deposit system for CIP imports, the government has made some concessions to residents in Military Regions I and II. Of the new measures enacted early last month, the increase in the official prices of imported rice in Military Regions I and II to make them comparable with prices in Saigon has been the most controversial. In order to assuage public opinion, the government already has announced a reduction in import taxes on some agricultural machinery imported directly into Military Regions I and II and has indicated it will eliminate advance deposits on all imports shipped directly from suppliers to the northern ports.

7. The increased rice price not only caused considerable public resentment but stirred up rumors of a rice shortage in Military Region I. To squelch these rumors, Minister of Economy Ngoc, along with newsmen, flew to Da Nang on an inspection trip in late October after which he told US officials he was satisfied with the rice situation in the northern provinces. Since that time,

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however, there have been typhoons and heavy floods in many coastal areas in the north. Although Embassy officials claim that a large part of the rice crop had been harvested before the floods, there apparently has been considerable loss of stored rice as well as of paddy yet to be harvested. On 4 November, Vietnamese officials estimated that 55% of the crop in Military Region I had been lost.

Wage Increases

8. The most disturbing reaction to the government reform program so far is the demand for wage increases by Vietnamese workers in the US sector of the economy. The demand was sparked by the recent 17% pay increase for GVN employees and by resentment against the more highly paid foreign workers, mainly Koreans and Filipinos, who are benefiting from the new exchange rate because they receive part of their wages in MPCs. Thousands of employees of the US construction consortium RMK-BRJ were on strike between 12 October and 10 November -- the longest major strike in recent years -- demanding a 10%-30% wage increase and other benefits. They know that layoffs already have begun and will continue as US forces continue to withdraw, but they still have the strength of numbers to make their demands heard. Moreover, the Vietnamese Confederation of Labor, largest and most influential trade union organization in South Vietnam, has backed the workers' demands, and non-striking workers in other American companies have petitioned management for more pay. Although the strikers, who received no strike benefits, returned to work without a resolution of the wage issue, US and GVN officials, who set the wage scales in the US sector, have indicated that some pay increase will be granted within the next few months. There are roughly 130,000 Vietnamese still employed by US agencies and their contractors, and a wage increase for them could add significantly to inflationary pressures, setting off further wage demands throughout the economy. Moreover, it will tend to undermine the salutary effect on morale of higher wages for the civil service and the armed forces.

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Delta Rice Situation

9. The large increase in the availability of rice in the delta during 1970 probably led to increased per capita consumption, increased consumption by livestock, and replenishment of local stocks. But with the prospect of another sizable increase in output from the harvest of the 1970/71 crop now under way, deliveries of rice to Saigon probably will be substantially larger during the coming months.

10. Data on delta production and deliveries during the past seven years (see the table) show that apparent consumption in the delta (which includes changes in stocks) was relatively stable during 1964 through 1966 but has varied widely from year to year since then. During 1964-66, production and deliveries declined roughly the same amount, so that apparent consumption was about constant. The 1967 crop in the delta suffered heavy losses as a result of floods, but rising paddy prices apparently prevented deliveries from declining as much as might have been expected. Stocks of rice probably declined. The following year production recovered, but marketing fell off because of increased insecurity in the delta following the 1968 Tet offensive and a decline in paddy prices. As a result, apparent consumption recovered to the 1964-66 level. In 1969, output again declined, but deliveries to Saigon increased almost 50%, mainly because the government made a deliberate attempt to raise paddy prices and because security in the delta improved. It seems likely that rice stocks in the delta were drawn down.

11. Developments in the delta rice situation in 1970 were the reverse of the previous year, with a sizable increase in output and a large drop in deliveries. Moreover, without government purchases, deliveries probably would have been even lower. The decline stemmed mainly from the fact that farmers, whose cash incomes increased considerably in 1969, were less pressed for cash this year and also expected the value of the piaster to be further eroded by rapid inflation and/or devaluation. Moreover, farm prices were fairly stable while the general price level continued to rise. Thus a very large supply of rice remained in the delta this year.

Delta Rice Production and Deliveries a/

	Thousand Metric Tons						
	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
Production <u>b/</u>	2,379	2,246	2,112	1,872	2,106	1,986	2,357
Deliveries to Saigon <u>c/</u>	532	440	346	274	263	392	310
Apparent consumption	1,847	1,806	1,766	1,598	1,843	1,594	2,047

a. Data are for Military Region IV and Long An Province, which is the only rice surplus province outside Military Region IV.

b. Production data are for crop years ending 31 May of the year designated.

c. Delivery data are for years ending 30 September of the year designated. The main harvest in the delta begins in the fall, and thus the 1969/70 crop, for example, would be marketed from the fall of 1969 until the new harvest begins in the fall of 1970.

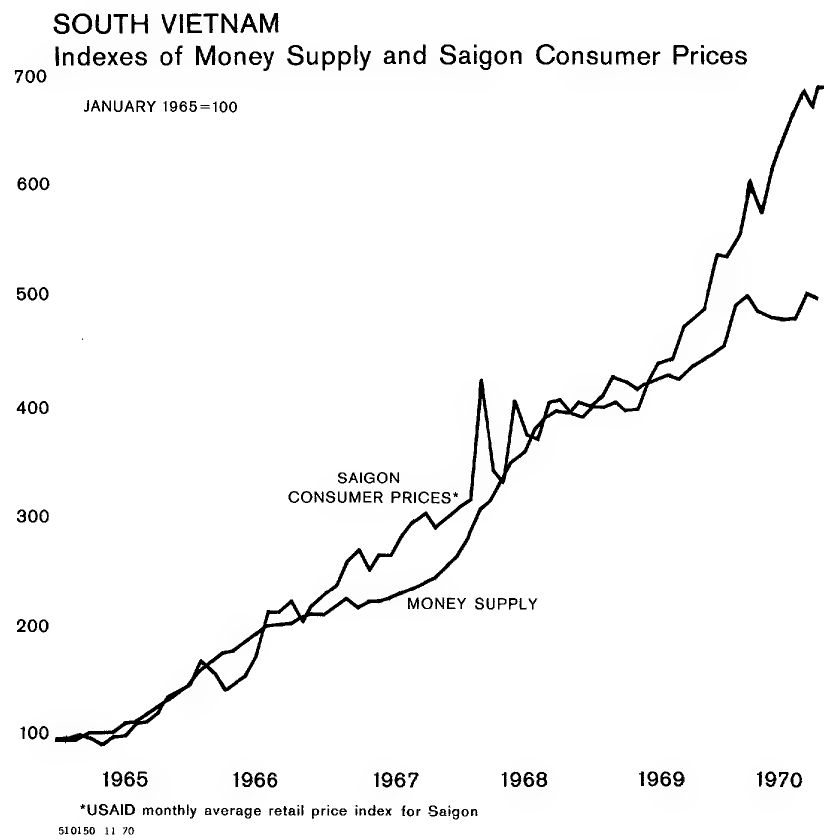
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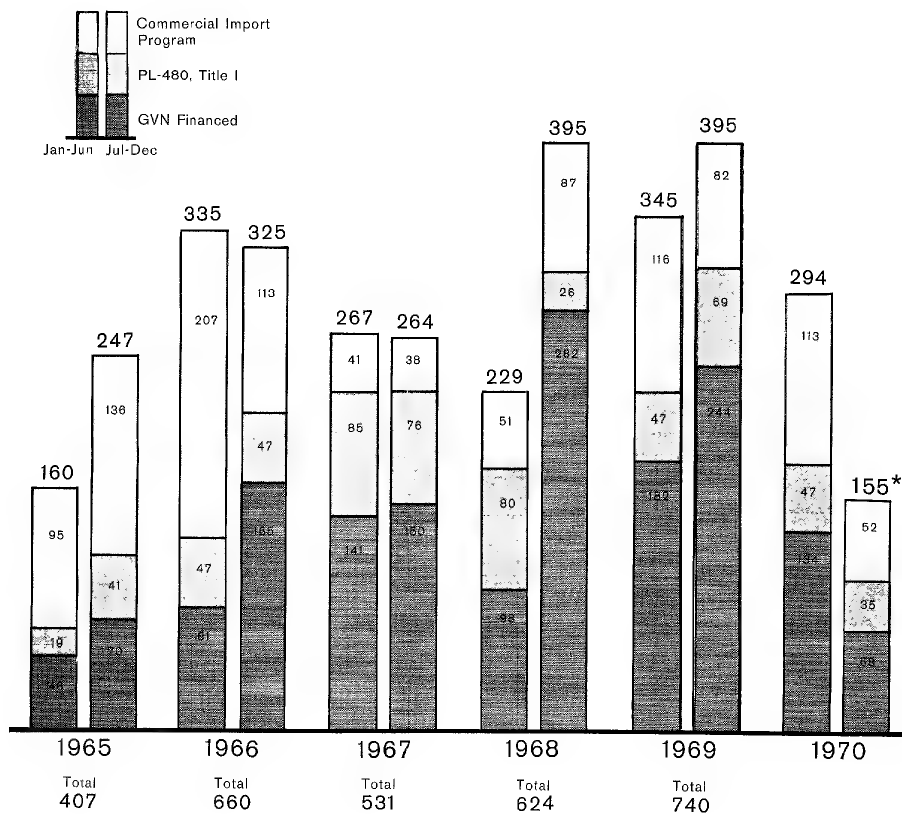
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12. If the data on output and deliveries are roughly accurate, the question then arises as to what has been done with this unusually large supply of rice. The most reasonable hypothesis seems to be that rice stocks increased greatly. In 1969, as in 1967, farm stocks probably were depleted, while in 1970, as in 1968, the reverse occurred. In 1970 there also may have been some increase in consumption of rice as a result of the decline in rent payments to landlords which usually are made in kind. There is no solid evidence of diversion of significant amounts of rice to Cambodia. In fact, the fighting in the border areas and depreciation of the Cambodian riel probably have discouraged such trade. Moreover, Cambodia has a large rice surplus this year, part of which comes from the areas bordering the South Vietnamese delta. Any increase in consumption by VC/NVA forces either in or outside the delta would be negligible compared with the total availability of rice in the delta.

13. The probable high level of stocks in the delta as well as several other factors indicates that delta deliveries should increase substantially during coming months. The crop now being harvested in the delta is expected to be about 10% larger than last year's. In addition, as a result of the recent economic measures, the first step has been taken to encourage marketing of delta rice in the rice-deficit northern provinces, and it appears that expectations of further rapid inflation have been dampened, at least temporarily. Government plans call for additional increases in the prices of imported rice to raise them to the level of domestic rice prices, but these could be delayed in the wake of the recent flooding in the northern provinces. Nevertheless, market conditions have improved, and the government has announced that it will support paddy prices at a reasonable level. Despite problems that may occur in the short run as a result of the flood damage in Military Region I, the prospects for the domestic rice market appear good.

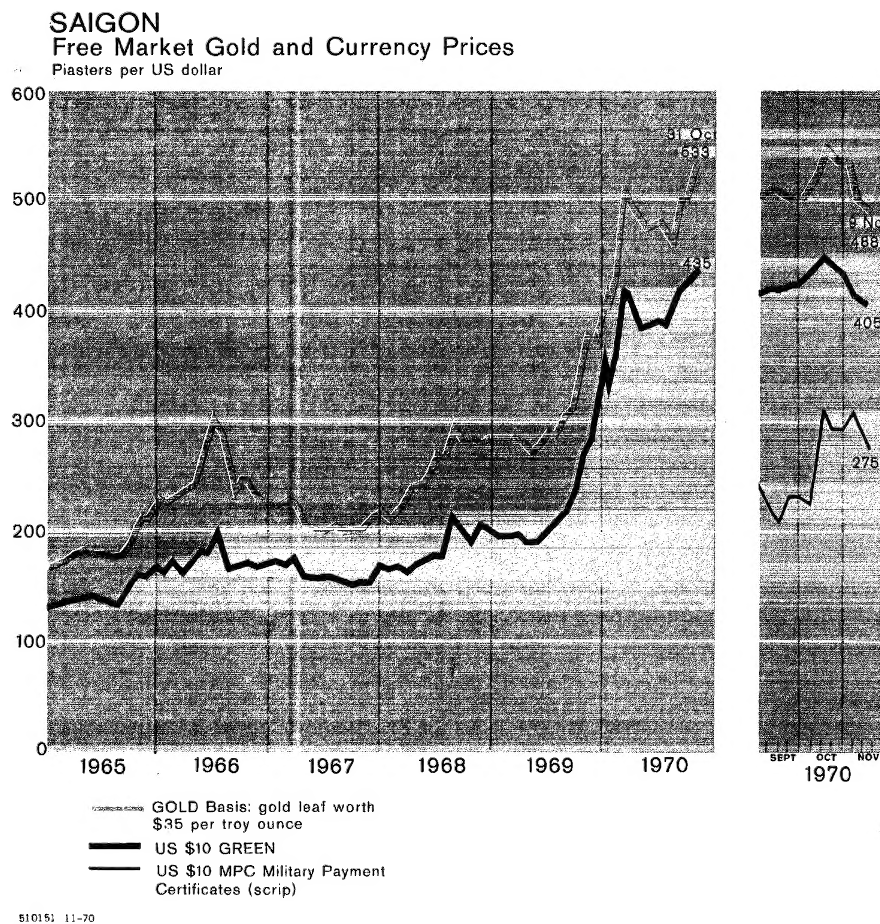


IMPORT LICENSING (Millions of Dollars)

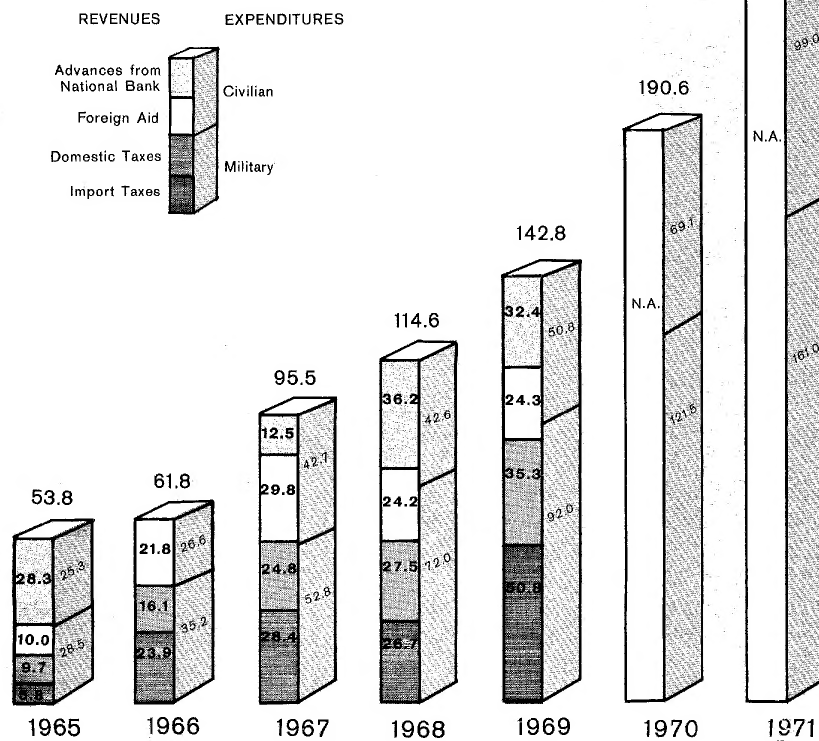


*July through September only

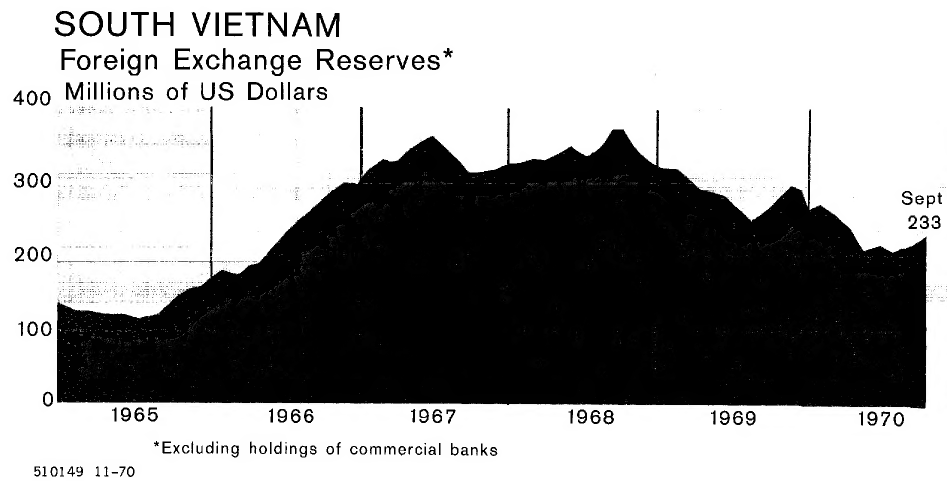
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GOVERNMENT BUDGET * (Billions of Piasters)



*Data include extrabudgetary revenues and expenditures



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